• Nurture and renew the inner attitude of all public & private sector workers to be pro-active, creative, resourceful and to excel for the benefit of the nation.

• Reduce the number of monopolistic companies to increase level of competitiveness and service quality and hence, sustaining high growth.

• Reduce protective tariffs given to companies over the next 3-5 years in stages. Within this period, local companies should be able to compete with foreign suppliers. Otherwise end users will forever subsidize these inefficient operations. To protect one inefficient company will be at the expense of many potential exporters.

• End this crisis! Focus on fundamentals and take the emotion out of the market.

8. Recommendations

In light of the responses received, the paper suggests several proposals to further improve the trade and investment climate in the country under the following strategic thrusts:

• Stimulating exports
• Attracting foreign direct investment
• Improving Malaysia’s competitiveness
• Addressing the Y2K issue
• Encouraging Malaysian businesses to participate in multilateral fora
• Strengthening the services sector
8.1 Stimulating exports

Many larger Malaysian companies are now going regional and international to sell their products and services in both developed and developing markets. However, it is estimated that only half the medium scale and about 15 per cent of small scale enterprises export their products. The development of the small and medium export oriented local businesses would help Malaysia to build an enduring and stronger export economy.

The huge difference between selling products and services in the domestic market and venturing overseas for these products and services has detered would-be SME exporters. Some of the obstacles encountered include the bewildering complexities of exporting, the lack of timely information on overseas markets, the difficulties of transportation and communication as well as unfamiliarity with procedures and channels of distribution in foreign markets. Also, SMI are unable to sell competitively due to their small volume of production and limited financial resources.

Proposals

I. Review and enhance the effectiveness of current governmental export assistance efforts. Successful government export promotion strategies will enable Malaysian businesses to find new markets abroad for their products and services. Export promotion schemes which covers a wider range and depth of products and services need to be quickly and effectively implemented.

II. Review the current strategy of using designated companies as General Trading Companies to help local small and medium-sized industries (SMIs)
to distribute and market their products and services in export markets. GTCs should also assist SMEs in product development to meet specific requirements of customers.

III. Emphasis has to be given to develop more export-oriented local SMIs. Special assistance could be given to the smaller export enterprises to help them to make inroads into world markets. Malaysia’s industrial development strategy has to include priority to assist the SME export firms to maintain, increase as well as win new markets abroad and not only to merely supply to large scale industries and MNCs locally.

IV. Export promotion efforts should not be hampered by cutbacks in government budget. Instead, trade promotion and assistance efforts particularly in relation to export training, outbound trade missions, participation in international trade fairs, export financing and creation of export trading companies should be intensified.

V. Approved International Trading Companies (ITC) were given income tax exemption of 70% of statutory income arising from increased export sales for a 5-year period. In order to enable SMEs to also benefit from this Budget 1999 incentive to promote exports, it is proposed that the qualifying condition of having to achieve an annual sales turnover of more than RM 25 million be removed.

VI. Create permanent display corners in all MATRADE and MIDA offices abroad to showcase “Made-in-Malaysia” products.
8.2 Attracting foreign direct investment

Malaysia needs to maintain investor confidence. Foreign and domestic investment determine the level of economic activity. It is envisaged that FDI inflows from East Asian countries such as Japan, Singapore, Taiwan, Hong Kong and South Korea which have traditionally been among the keenest foreign investors in Malaysia will be affected over the next few years as these countries are also beset with economic problems following the currency crisis.

Proposals

I. Review FDI strategies to tap potential of non-traditional sources to offset the decline from East Asian countries.

II. Give more emphasis to attract foreign SMEs to invest in Malaysia as the Ringgit depreciation has lowered the investment cost in the country.

III. Encourage more SMEs from the industrial nations and countries which are least affected by the recent crisis which are involved in high-tech businesses, to collaborate in joint-ventures or other forms of partnership with local SMIs.

IV. Malaysia’s image in the international press suffer from time to time. Any incorrect messages which may appear in the international press must be promptly rectified. However competitive the country may be, a poor image in the international press may deter potential investors.
8.3 Improving Malaysia's competitiveness

Many countries have embarked upon a crusade for competitiveness. Malaysia must also sustain and enhance its competitiveness in the global market place. Businesses will only invest as long as it is profitable to do so in an environment which can support them to achieve a high level of efficiency. The Asian crisis has altered the competitive position of countries in the region. Malaysia's competitive position may have been eroded by steeper depreciation of other regional currencies. The Ringgit's depreciation has increased input costs such as imported raw materials and components which in turn have pushed up business costs. The higher cost of doing business in Malaysia will have a detrimental effect on the nation's investment climate and reduce the inflow of foreign direct investment.

Electronic commerce is gaining momentum internationally. The value of goods and services currently being traded over the Internet is estimated at US$46 billion and expected to grow to between US$200-US$300 billion by 2002. Many countries now put much emphasis on promoting the use of e-commerce as the key to competitiveness in international trade. IT-based trade and commerce is critical for Malaysia's survival in the more fiercely competitive global market. With current efforts in Malaysia being focussed on revitalizing the economy, e-commerce has taken a backseat in most corporate plans. Most Malaysian businesses especially SMEs have yet to adopt IT as a significant business tool and are unaware of the potential of e-commerce for trade and investment. E-commerce may just be the engine of growth to revitalize the Malaysian economy.

Proposals

1. Malaysia must formulate a national vision and strategy to effectively participate in electronic commerce. Malaysia runs the risk of becoming
uncompetitive in the international business arena if it does not prepare itself for fast emerging trends in Internet commerce.

II. Provide incentives such as tax breaks to encourage companies to participate in Internet commerce. A neighbouring country is giving a 10 per cent concessionary tax rate on offshore trading income derived from transactions over the Internet. This special tax rate is significantly lower than the normal rate at which companies are taxed.

III. Introduce schemes and incentives to promote business to consumer and business to business electronic commerce in Malaysia. It is envisaged that business to government e-commerce will be promoted by the MSC electronic government flagship application.

IV. Establish new schemes to help companies internationalize through electronic commerce and to increase the efficiency of their marketing and trading strategies.

V. Essential to the development of e-commerce is the access to software systems at affordable costs. Provide training and soft loans to local businesses to acquire e-commerce software systems.

VI. Ensure that the cost components of doing business in Malaysia such as utilities, rent, industrial land, sewerage charges, interest rates, toll rates, freight charges etc are competitive not only within the region but also globally.

VII. Form a National Competitive Steering Committee to formulate strategies to restore our competitiveness and enable our economy to weather the crisis as well as assess Malaysia’s competitiveness over the next decade.
V. Improve the productivity of civil servants, especially amongst the lower echelons. The overall down-sizing of the Civil Service must be a priority if quality is to be improved.

VI. The Government should continue to ensure that Malaysia is competitive internationally as regards taxation. Where the tax environment is truly competitive, the requirement for fiscal incentives becomes less pressing.

8.4 Addressing the Y2K issue

A majority of Malaysian businesses are either unaware or have grossly underestimated the serious implications that the 'Millenium Bug' or Y2k will have on their companies. This lack of awareness is further compounded by the current crisis. Most Malaysian businesses are facing the brunt of the currency crisis. As a result, many businesses have gone bankrupt, most have severely tightened their investment spending, and almost all of them have cut their IT budgets.

Towards the end of the year, however, the level of awareness and people wanting to take action will increase dramatically. Given the insufficient resources such as the limited supply of local IT expertise to address the issue, this will further push up the cost of addressing the issue at the last minute. Businesses will have to divert huge amounts of resources in last-minute efforts to solve the problem and further lose productivity. SMEs are expected to be the hardest hit by the Y2K issue. Given the tight money situation, SMEs would rather use whatever resources they have to get more business, than spend it on solving the Y2K issue.
Proposals

I. Establish a Y2K fund to provide soft loans to Malaysian businesses. At present, Malaysian SMEs can tap into the SMF Fund to finance Y2K compliancy. Similar soft loans and tax incentives should be extended to other Malaysian business operations to finance Y2K-compliancy projects.

II. Heigthen awareness of Y2K through press coverage on television, radio and print. Initiate a television series on the Year 2000 problem which should be broadcasted in prime-time slots over local television channels.

III. Initiate a "Y2K-compliance" endorsement from Sirim Bhd.

IV. Introduce tax deduction for all Y2K expenses incurred by businesses

8.5 Encouraging Malaysian businesses to participate in multilateral fora

The processes of liberalisation and globalisation is a double-edged sword for Malaysia that will not only open up new opportunities but may also give rise to adverse consequences to Malaysia's economic competitiveness. The decisions and commitments on deregulation and liberalisation that are made by the Malaysian government at international economic fora such as APEC, ASEAN, ASEAN and particularly the WTO will have important ramifications on Malaysian businesses.

Proposal

Provide incentives to Malaysian businessmen to encourage them to take a more active interest in the subjects discussed in international economic organizations. One proposal is to provide tax breaks to Malaysian businessmen to attend
international and regional economic fora. This will enable the Malaysian private sector to provide feedback, guidance and support to the Malaysian government on such issues. Active private sector participation will help ensure that the policy approaches adopted by the Malaysian government in the negotiations in ASEAN, APEC, ASEM and WTO are responsive to the needs and fully reflect the realities of Malaysian businesses.

8.6 Strengthening the services sector

Now that Malaysia has developed a dynamic economy based on manufacturing, the next challenge is to build a viable import-competitng and export-oriented services sector. Access to efficient services is important to the competitiveness of the whole economy. A weak domestic services sector will adversely affect the other sectors of the economy, especially the manufacturing sector. An over-protected and over-regulated services sector will be a drag on the more competitive goods producing sector. The Malaysian services sector must become world competitive in order for the order economic sectors to be competitive. Malaysia needs to build up efficient service industries to support the manufacturing sector in exporting competitive and quality products to the global market.

Proposals

I. Expedite the opening up of the Malaysian services sector to improve its competitiveness, productivity and efficiency to world-class level the soonest possible.

II. Establish a single co-ordinating authority to look into the development of the domestic services sector
III. Allow the entry of skilled foreign professionals whose expertise is not available locally

IV. Introduce a comprehensive set of investment incentives to accelerate the development of the sector including the promotion of more extensive use of information technology.